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PUBLIC EMPLOYMENT
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In the matter of the dispute	*	
	*	
between	*	ARBITRATION
	*	AWARD
	*	
IOWA CITY COMMUNITY SCHOOL	*	
DISTRICT, IOWA CITY, IOWA	*	
	*	Richard Peggnetter
and	*	Arbitrator
	*	
IOWA CITY EDUCATION ASSOCIATION	*	June 4, 2003
	*	

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A hearing in the above dispute was held in Iowa City, Iowa on May 20, 2003 before the undersigned Arbitrator. During the hearing, both the District, Iowa City Community School District, and the Association, Iowa City Education Association, were given full opportunity to present evidence and argument. The hearing began at 9:00 AM and concluded at 12:30 PM. Neither side filed a post-hearing brief and the record was closed with the conclusion of the Hearing.

APPEARANCES.

For the District: Tom Foley, Attorney for the District

For the Association: David Ulrick, UniServ Director

Background. Located in eastern Iowa, the Iowa City Community School District is the sixth largest school system in the state. The District employs approximately 770 teachers who are represented by the Association. The enrollment in the 2002-03 school year was 10,768 students, distributed in 17 elementary schools, two junior high schools, and two senior high schools. The Iowa City school system is recognized for its academic excellence and its students rank well above the national average on both ACT and Iowa Basic Skills test scores. The District operates with an annual budget of about \$72 million.

The parties were unsuccessful in their efforts to negotiate a new contract for the 2003-04 school year and proceeded through the Iowa Public Employment Relations Act impasse procedures to arbitration. The undersigned was selected as the sole arbitrator and a hearing was scheduled. The parties presented the Arbitrator with two Issues at Impasse: WAGES and INSURANCE.

Iowa law provides that the arbitrator will select the most reasonable of the final offers of the parties on each impasse item submitted to arbitration. This selection is to be based on consideration by the arbitrator of the following statutory criteria:

- a. *Past collective bargaining contracts between the parties, including the bargaining that led up to such contracts.*
- b. *Comparison of wages, hours, and conditions of employment of the involved public employees doing comparable work, giving consideration to factors peculiar to the area and classification involved.*
- c. *The interests and welfare of the public, the ability of the public employer to finance economic adjustments, and the effect of such adjustments on the normal standard of services.*
- d. *The power of the public employer to levy taxes and appropriate funds for the conduct of its operations.*

WAGES. The current contract provides for a base salary of \$25,697, with 14 increments for years of service and four education lanes to establish salary increases for additional education beyond the bachelors degree. The maximum salary provided on the 2002-03 salary schedule is \$52,550 for a teacher with 14 years of service and a 30 credit hours beyond a masters degree. Additional pay is provided for extra service activities like coaching, yearbook, and music. The District presented a final offer of a \$100 increase on the base salary for a \$25,797 new base in the 2003-04 school year. The Association submitted a final offer for a new, 2003-04 base of \$26,047, or an increase of \$350 on the base salary, without Phase monies.

In presenting their evidence on the salary issue, both parties emphasize the comparison group of eight school districts that represented the larger districts in Iowa. These schools, often referred to as the "Big Eight," are Des Moines, Cedar Rapids, Davenport, Sioux City, Waterloo, Iowa City, Dubuque, and Council Bluffs. They are located across the state and range in enrollment from over 32,000 in Des Moines to 9900 students in Council Bluffs.

Position of the Association. The Association contends that its final offer for \$350 base increase represents the lowest increase in 20 years for the Iowa City teacher bargaining unit. The Association argues that, in relative ranking among other Big Eight school salary schedules, the salaries for Iowa City teachers have dropped in recent years at benchmark comparison points (Association Exhibit 11-A through D). For example, in the 1998-99 school year, the Iowa City base salary was \$625 above the average. By the 2002-03 school year, the Iowa City base had slipped to \$147 below the average for similar districts. Similarly, at the MA – step 10 lane, Iowa City had dropped from being \$2096 above the group average to \$1001 above the average across the same time period. The Association submits that Iowa City salaries only compare favorably with overall average salaries in similar districts because of the higher experience and education levels reflected by Iowa City teachers. The Association maintains that its proposal for a \$350

base increase for 2003-04 will serve to sustain the comparative salary position of Iowa City salaries among similar schools. The Association argues that the District final offer of only a \$100 base increase would cause further decline in the relative ranking of Iowa City salaries among the Big Eight comparison group.

The Association submits that the District can fund the Association's final offers on wages and insurance with no financial hardship. The Association maintains that the District has one of the largest unspent balances in the state at \$10,276,962 (Association Exhibit A). The Association also claims that the District will benefit from substantial turnover savings, with nearly \$140,000 realized alone from five teacher positions being reduced (Association Exhibit 14). Finally, the Association contends that District can fund a teacher salary increase of \$350 on the salary schedule base, and keep Iowa City salaries competitive, without causing the District to raise taxes or reduce programs.

Position of the District. The District argues that a proposed increase of \$100 in base salary for 2003-04 will continue a competitive wage position for Iowa City teachers and have a more reasonable impact on the District's budget than the increase proposed by the Association. The District submits that Iowa City salaries compare favorably with other schools in the Big Eight. The District introduced evidence to show that Iowa City salaries were above the average for most salary schedule benchmarks. For example, Iowa City had the top bachelors salary in the group and was \$1918 above the average of \$50,881 for the highest masters degree lane (District Exhibits 61 and 68). The District stresses that its competitive salary structure continued to attract teacher applicants and sustain the recognized quality of the Iowa City schools.

The District extensively refutes the Association claim that the District could easily fund either of the parties' final offers. The District claims that enrollment growth had softened and would have future impact on growth monies (District Exhibits 123 and 135). The District contends that even the lower cost estimates for the Association proposal would be over 200% over new money (District Exhibit 164). The District contends that its unspent obligated balance is only 9.54% of the budget, with extensive budget pressures on those funds (District Exhibit 165). The District urges that unspent balance monies should be regarded as non-recurring resources, while salaries are recurring expenses. To this point, the District submits that several years of salary funding using unspent balance monies would soon exhaust the fund and be fiscally imprudent (District Exhibit 177). The District argues that any "salary-savings" monies from turnover or staff reduction would likely be much less than claimed by the Association (District Exhibit 169). The District maintains that its final offer on salary is more reasonable than the Association's on the basis of both salary comparisons and financial considerations.

INSURANCE. The current contract contains a health insurance clause that provides District payment of \$336 per month or the cost of an individual health insurance policy, whichever is higher, for each employee. This minimum dollar amount has usually provided enough support for full individual coverage and a portion of family health insurance cost. The clause also provides that employees can use the above amount to purchase an annuity in lieu of health insurance. About a third of the bargaining unit members use the tax sheltered annuity option. The District proposes new language, which provides single medical insurance for each employee, but places a limit of \$375 on money directed to purchase an annuity for full-time employees choosing not to take the health insurance coverage. The Association seeks to retain the existing language, with a modification of the \$336 minimum to a new \$452 amount.

Position of the Association. The Association stresses that its health insurance final offer reflects a continuation of the past contracts and should be retained. The Association submits that the parties have used the full premium and annuity option since the 1998-99 contract (Association Exhibit 10). The Association final offer maintains the existing format of the uncapped annuity option and only adjusts the minimum dollar amount for each employee. The Association argues that District proposal represents a fundamental change in the health provisions of the contract contends that Iowa City teacher health benefits are already the lowest in the Big Eight comparison group. At \$336 per month, Iowa City is below the group average of \$626 by \$290 in employer-funded health insurance (Association Exhibit 10-A). The Association claims that the District proposal will further weaken this poor comparison by reducing the amount available for those who chose the annuity option. The Association maintains that, by both comparative measures and bargaining history, its final offer on health insurance is the most reasonable.

Position of the District. The District stresses the significant cost increases in health insurance in support of its final offer. The District submitted evidence to show that the health insurance fund balance had declined significantly in past years and is now below \$500,000, from a 1998 high of over \$3 million (District Exhibit 3). The District maintains that nearly \$400,000 will be saved under its proposal to cap annuity option contributions at \$375 (District Exhibit 5). The District provided extensive data to demonstrate the variation in health insurance costs possible under different insurance provider scenarios. These differences could amount to over \$1 million more in District costs (District Exhibit 8). The District emphasizes that two insurance plans are on the horizon, one a continuation of the current plan, while a second, more cost-effective plan from John Deere Health Care might be available. The John Deere plan would only be an option if adopted by all the employee units employed by the District, including the teachers. Such an adoption by all units is dependent on future discussions with other units and, therefore

cannot be predicted in costing the health insurance for the teacher unit. The District contends that whichever health insurance plan is used, it is critical to cap some insurance costs in the face of significant insurance premium increases.

Discussion. The two contract terms in dispute here are powerfully connected financial issues. Like other similar districts in Iowa, general budget pressures in Iowa City are being exacerbated by dramatic increases in health insurance costs. The District's final offers address this situation by limiting the base salary increase to \$100 and amending the format for providing health insurance benefits. The Association's final offer proposal approaches the issue by seeking a lower than normal \$350 base increase, while maintaining the past health insurance structure of full employer payment of single coverage or equivalent monies for an annuity. While the parties vary slightly in their costing, the total cost of the District proposal for both wages and health insurance represents a 4.35% increase (District Exhibit 20, as amended during the hearing). The Association's proposal is estimated to be a total increase of 4.95% (Association Exhibit 16). Both of these estimates vary with the selection of health insurance provider and both proposals will exceed the District's new money increase of 1.83% for 2003-04 (District Exhibit 34).

The evidence supports the total provisions of neither the District nor the Association proposals. The District final offers would represent a significant change in the format for providing health insurance benefits, combined with one of the lowest base salary increases in the comparison group (Association Exhibit 11-E). Regarding health insurance, while the tax sheltered annuity option compares well with other Big Eight districts, the District is below average in overall employer contribution to health premiums (Association 10). The District final offer on health insurance would not significantly improve that overall comparison. Similarly, the District proposal on wages, in conjunction with the District insurance offer, would be lower than all but one reported base increase in the Big Eight comparison group.

The total Association proposal is also not justified by evidence from the comparison group. The cost of Association proposal would exceed the District's new money by at least 3.12%, with the reported average settlement in the Big Eight comparison group exceeding new money by only 1.87% (District Exhibit 34). Further, there is risk that insurance costs could be even higher, depending on final insurance provider. With the Association proposal having no cap on the tax sheltered annuity option, the total cost of the Association's final offers could exceed 6% with the higher cost provider (Association Exhibit 16, District Exhibit 34).

Under the Iowa Public Employment Relations Act, the arbitrator has the authority to select from only the final offers presented by the parties on each impasse item. Since the issues here both have significant impact on total financial cost, their combined role in that total cost

must be weighed along with the other statutory criteria which guide the arbitrator in selecting the most reasonable of the final offers on each issue. I will award below that the District final offer on wages and the Association final offer on health insurance are selected as the most reasonable. My basis for these selections is founded on the following analysis.

1. The uncertain factor in this dispute is final health insurance cost. The insurance carrier used impacts the costs of both parties' final offers on health insurance. The intention of the District, and not resisted by the Association, is to use the lowest cost, effective provider. Here that insurance option is referred to as the John Deere plan. However, the John Deere plan is only available for the teacher employee unit if it is adopted for all four of the District's employee groups, including the teachers. That carrier selection is not a decision unilaterally controlled by the District for all the employee units. Until it is determined that the John Deere plan will be adopted for all four units, the costs of the current carrier, which are higher than the John Deere plan, loom in the background as an uncertainty. The cost difference could be as much as 1% more in final settlement costs. For example, the estimated cost of the Association proposals on wages and insurance would be 4.95% with the John Deere health insurance plan and 6.14% with continuation of the current carrier (Association Exhibit 16). This ambiguity faces the Arbitrator with the need to weigh reasonable speculation regarding the likely insurance provider. Consequently, I am factoring health insurance costs into total settlement costs with the assumption that the District will have the John Deere option, recognizing that a possibility exists that this lower cost provider may not be available. The luxury of having this final information on insurance costs in hand within the timeframe for this award, while desirable, is not possible.

2. The selection of the Association final offer on health insurance will preserve the value and structure of an important benefit that has been shaped and negotiated in the past by the parties. Since the 1998-99 contract, the parties have embraced the current health provisions of expanded, full, single coverage, and the tax sheltered annuity option, paid by the employer (Association Exhibit 10-B). Further, the continuation of this significant benefit is overwhelmingly supported by the members of the bargaining unit. More significantly, the format of this clause was generated by the parties themselves in earlier years of bargaining and continued in succeeding contract. There is no evidence that the Association has ever considered or proposed a limit or lesser value in insurance benefits for employees not using the health benefit. Such a mutually developed contract provision should be weighted heavily against an imposed change through arbitration. The health insurance proposal of the Association exceeds the cost of the District's proposal mainly because of the absence of a cap on monies diverted to the tax sheltered annuity option. This option is exercised by about one third of the Iowa City teachers.

This renders the difference between the two final offers on insurance at about \$258,000 more under the Association final offer without the \$375 tax sheltered annuity cap proposed by the District (calculated from Association Exhibits 12,13, and 16). This cost estimate presumes the adoption of the John Deere plan.

3. Selecting the \$100 base increase proposed in the District's final offer will sustain a reasonably competitive position for Iowa City teachers. A new base of \$25,797 will keep the Iowa City base at the average base salary, reported as \$25,777, for settlements in the comparison group (Association Exhibit 11-E). While this increase is below the average base increase reported for the comparison group and will not improve Iowa City's relative position at various salary schedule benchmarks, Iowa City teacher salaries will continue to rank above average at most salary schedule benchmarks beyond the base (District Exhibits 56 through 68, Association Exhibits 11-B and C). Further, Iowa City's overall average teacher salaries will continue to compare well in the comparison group, continuing to be near the top in the Big Eight (Association Exhibit 11-D).

4. The total cost of an additional \$100 base salary increase and continuing the current health insurance format, with no cap on the tax sheltered annuity option, is estimated to represent an approximate total package increase of about 4.36% (calculated from Association Exhibits 12 and 13). An increase of 4.36% in total package costs for Iowa City teachers will be within the range of reported settlements among similar Iowa districts for 2003-04, cited as an average of 4.30% (Association Exhibit 11). These include a total increase for 2003-04 of 3.93% in Cedar Rapids, 4.40% in Council Bluffs, 3.55% in Des Moines, and 4.43% in Dubuque (District Exhibit 34).

5. The cost of a \$100 in base salary and the continuation of the current health insurance format will not work an unreasonable hardship on the District's 2003-04 budget. While a 4.36% cost increase will exceed the District's allowable growth of 1.83% for the next school year, the District should continue to have a healthy unspent budget balance, noted as over \$10 million in 2001-02 (Association Exhibit H). In addition, the District should realize some turnover savings as more experienced teachers retire or leave the District and are replaced with new teachers at entry points on the salary schedule. The Association estimates this savings at over \$650,000 in 2003-04 (Association Exhibit 14). While the District contends that these savings will be less than the Association estimate (District Exhibits 168, 169), it is clear that there will be turnover salary savings in the District in the 2003-04 school year, protecting the District somewhat from having to use non-recurring funds to support the total settlement increase of 4.36%.

6. Regarding allowable growth and new money, the award of a 4.36% total package increase will exceed the District's new money by 2.53%, a margin that compares reasonably with settlements in similar Iowa districts. Among the four Big Eight districts settled at the time of this arbitration, the average settlement exceeded new money by 1.87% (District Exhibit 34). It is fortunate that the Big Eight districts are in the favorable position of having growth money. The majority of Iowa school districts have zero new money, with the statewide average being 0.70% and total package settlements of 4.0% or a settlement gap of 3.3% above new money, among districts who have settled 2003-04 contracts (District Exhibit 41). Last year, the Iowa City teacher settlement was 3.8%, exceeding the District's new money by 1.75% (District Exhibit 35). It should be noted that the total percentage increase of either of the parties' final offers for the 2003-04 contract would have exceeded the District's new money by more than 2%.

In summary, a new, 2003-04 contract which provides for a \$100 increase in base salary, while preserving the format of the existing health insurance in the face of rapidly increasing insurance costs, will keep wages and fringe benefits competitive for Iowa City teachers. Combined, these two changes from the 2002-03 agreement will represent an increase of about 4.36% in costs for the District. Given enrollment growth and the strong financial health of the District's budget, this increase should work no hardship or undue pressure on the District and its supporting taxpayers.

Therefore, in accordance with the above Discussion, I hereby provide the following

AWARD

1. **WAGES.** The final offer of the District for a \$100 increase in the base salary for 2003-04 is selected as the most reasonable.
2. **INSURANCE.** The final offer of the Association for a continuation of the existing provisions on health insurance, with a new \$452 minimum for full-time teachers and a new \$255 minimum for teachers who are not full-time, but half-time or more, is selected as the most reasonable.

Bonita Springs, FL
June 4, 2003


Richard Pegnetter, Arbitrator

CERTIFICATE OF SERVICE

I certify that on the 4th day of June, 2003, I served the foregoing Award of Arbitrator upon each of the parties to this matter by (_____ personally delivering) (FAX and Mail mailing) a copy to them at their respective addresses as shown below:

I further certify that on the 4th day of June, 2003, I will submit this Award for filing by (_____ personally delivering) (FAX and mailing) it to the Iowa Public Employment Relations Board, 514 East Locust, Suite 202, Des Moines, IA 50309.

Richard Pezetter

Richard Pezetter
(Print Name)

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